Standard Reinsurance Agreement
Final Draft Fact Sheet

The Standard Reinsurance Agreement (SRA) establishes the terms, roles, and responsibilities for the Risk Management Agency (RMA) and insurance companies that participate in the Federal crop insurance program. Through the SRA negotiation process, RMA has worked aggressively to preserve the Federal crop insurance program as part of the farm safety net, protect the interests of taxpayers, and ensure continued access for producers in every region of the country.

Administrative and Operating (A&O) Subsidies

A&O subsidies are payments made on behalf of producers to companies to cover the cost of selling and servicing the policy. In recent years, companies have received significant increases in A&O payments, based on increasing commodity prices, while the number of policies sold have actually decreased. The new agreement removes the potential for windfall A&O payments based on extreme commodity price spikes. The new SRA:

- Allows A&O payments to fluctuate within a range that removes the extremes. This will prevent windfalls created by price spikes but ensure an adequate A&O subsidy is provided to companies.
- Calculates A&O substantially similar to today's program, i.e. based on projected market prices, not on reference prices as proposed in the first two SRA drafts.
- Provides a maximum A&O amount of $1.3 billion in 2011, and increases it yearly with inflation to $1.37 billion in 2015. This is almost 40 percent more than the $935 million the industry received in A&O payments in 2006 (the last year before the price spikes) and 35 percent less than the $2 billion the industry received in 2008 (the height of the price spikes).

Agent Commissions

Base agent commissions have been driven up in recent years, and comments and feedback received from crop insurance companies suggested that something be done to ensure company financial solvency into the future. The new agreement:

- Limits companies' expenditures on base agent commissions to 80 percent of the A&O subsidy. Companies will still be allowed to use profit sharing, but total agent compensation will be limited to 100 percent of the A&O subsidy to ensure fair and equitable competition among all companies in all states.

Risk Sharing Terms

The current agreement risk sharing terms are structured in such a way that some states in the Corn Belt have been much more profitable than the other states. Analysis by Milliman, Inc. also indicates that the industry as a whole has been making far above a reasonable rate of return. This analysis shows that over the last 21 years a reasonable rate of return for the companies averaged 12.7 percent, while the companies actually received an average rate of return of 17.0 percent. The new SRA:

- Rebalances the risk sharing terms to equalize expected returns throughout the different states, including a return to the Assigned Risk Fund with state, stop loss protection, and terms that are more profitable for states outside the Corn Belt.
- Provides an expected return to companies of about 14.5 percent.
- Sets the Net Book Quota Share at 6.5 percent, with 1.5 percentage points of any underwriting gain to be distributed to those companies that sell and service policyholders in 17 underserved/less-served States (Group 3 States). This provides a financial incentive for companies to continue doing business in these underserved or less-served States.